



## Philadelphia Homeownership Center

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U.S. Department of Housing and Urban Development

The Wanamaker Building  
100 Penn Square East  
Philadelphia, PA 19107-3389

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### CIRCULAR LETTER PH 99-05

TO: All Approved Mortgagees Doing Business in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia

FROM: Gerry Glavey, Director, Processing and Underwriting Division

SUBJECT: Pre-Closing Review Cases  
HUD Employee Loans

We have received numerous inquiries about the pre-closing review case process. In this mortgagee letter we have outlined instructions and guidance for mortgagees undergoing this process. In addition, we are providing guidance on the processing of applications for FHA-insured mortgages for HUD employees.

#### **Written Request to be Placed in Pre-Closing Review Status**

Mortgagees who do not have unconditional Direct Endorsement authority and wish to obtain it must submit a written request to be placed in pre-closing review status. Along with this request, please submit a copy of the approval letter received from HUD's Lender Approval and Recertification Division in Washington, D.C., and a list of current staff. Upon receipt of this information we will make arrangement to conduct a welcoming conference with representatives of your firm. This process takes approximately one week. Mortgagees may then begin to submit pre-closing cases.

## **Processing Applications While in Pre-Closing Review Status**

Mortgagees in pre-closing review status may take applications from borrowers, order case numbers and appraisals, order credit reports, obtain verifications of deposit and employment, and otherwise process the application in accordance with all Direct Endorsement policies and guidelines up to the point of firm commitment. The loan package must be submitted to HUD at that point for an underwriting review and the issuance of the firm commitment.

## **Number of Pre-Closing Review Cases Required**

A minimum of fifteen cases must be submitted. A maximum of 5 of these 15 cases can involve streamline refinances and/or AUS cases.

If acceptable underwriting is demonstrated by the mortgagee after these fifteen cases, a letter granting unconditional authority will be sent to the mortgagee. If the mortgagee's underwriting is not acceptable, additional cases will be required.

Many mortgagees have requested waivers of the fifteen case minimum based on the experience of their underwriting staff. Mortgagees are advised that the fifteen cases minimum is a regulatory requirement found at 24 CFR 203.3 (a) 4 and cannot be waived.

## **HECM Cases**

Mortgagees wishing to process HECM applications on an unconditional Direct Endorsement basis must submit five HECM cases for pre-closing review. Where mortgagees are requesting unconditional authority for HECM cases at the same time as general unconditional authority, the HECM cases submitted for review will count toward the 15 test case minimum.

## **Acceptable Underwriting**

The lender will be released from pre-closing status when the lender has successfully underwritten and processed 15 test cases as evidenced by the issuance of a firm commitment by the HOC. When this requirement is met, the lender will be issued its unconditional approval letter

If a lender submits 30 cases and these standards have not been met, the lender will be instructed to cease submitting test cases to FHA for 180 days. Additional training must then be obtained by the lender before reapplying to submit cases. While in test case status, a lender may send up to 25 cases that are either streamline refinances or AUS cases.

Where HUD rejects or revises the terms of a loan, mortgagees may submit a request for reconsideration. The mortgagee must submit documentation to support its request for a reconsideration. Where HUD ultimately determines that a loan must be rejected, that loan will not count towards the satisfaction of the 15 loan minimum.

### **Submitting Pre-Closing Review Cases**

Due to the huge volume of cases which pass through our office, it is easy for pre-closing review cases to be misdirected. To avoid this problem, please use the green case binders available for this purpose. An initial supply of these binders will be provided at the time mortgagees are formally placed in pre-closing review status. More will be provided as required. If for any reason mortgagees submit pre-closing review cases in any binders other than the green binders provided, we suggest that the binder be clearly marked “**PRE-CLOSING TEST CASE**” in large block letters. If submitting more than one case, make sure all cases are so marked, not just the first case. Do not rely simply on checking the box on the case binder for pre-closing. Mortgagees are also encouraged to mark their case binders with the sequential number of the pre-closing review case being submitted (i.e., 3 of 15, 4 of 15, etc.).

HUD retains the case binder for all pre-closing review cases. These case binders will not be returned to the mortgagee, even where the case is rejected. If mortgagees believe that they will need the originals of any documents submitted, either to satisfy investor requirements or for other reasons, we recommend that they submit copies to HUD. Copies are acceptable provided that they are legible, and accompanied by signed individual or blanket certifications that the documents are true copies.

The quality of the mortgagee’s submissions and underwriting directly impact on successful completion of the pre-closing review phase. Before submitting pre-closing review cases therefore, mortgagees should carefully review them for completeness and clarity. Mortgagees should ensure that all necessary documents are in the case binder, and that they are consistent with the information provided on the mortgage credit worksheet. Any deviations from standard policy should be explained. If the front-end or back-end ratios exceed the 31/43 standard, on manually underwritten loans, compensating factors must be provided. Missing documents and inconsistencies will result in rejections and/or “Unacceptable” ratings.

### **HUD Processing of Pre-Closing Review Cases**

The processing of pre-closing review cases is a priority for this office. Mortgagees may monitor our receipt and processing of the pre-closing review cases through FHA Connection. Please do not telephone the office for status reports until four working days have passed.

Upon the completion of our processing, the firm commitment can be printed by the lender utilizing the FHA Connection.

Mortgagees are cautioned not to schedule closings too closely after the submission of pre-closing review cases. There is no guarantee that a firm commitment will be issued at all, or that it will necessarily be issued in time to meet a specified closing date.

Some mortgagees opt to close loans prior to submitting them to HUD. While this practice is discouraged, it is not prohibited. Mortgagees should be fully aware however, that they close these loans at their own risk. There is no guarantee that HUD will issue the firm commitment on these loans necessary to obtain insurance endorsement.

### **Submission of Closing Packages for Endorsement**

Following the issuance of a firm commitment by HUD and the closing of the loan in accordance with outstanding Direct Endorsement policies and procedures, the closing package should be submitted to HUD for insurance endorsement. Upon receipt, HUD will merge the closing documents with the loan package submitted for firm commitment processing, and process the loan for endorsement. Immediately following endorsement, the merged case file will be forwarded to a federal records center. Again, certified true copies of documents are acceptable.

To ensure proper handling, mortgagees should clearly mark the closing package as a test case.

### **Applications for FHA-Insured Mortgages from HUD Employees**

All applications from HUD employees, whether the mortgagee has received unconditional approval or not, must be processed by HUD in accordance with the procedures outlined above for pre-closing review cases. Mortgagees should identify such applications by marking the case binder “**HUD EMPLOYEE LOAN**” in large block letters. Mortgagees may also request a bright green case binder for such applications by calling (800) CALLFHA, and ask for an underwriter.

We appreciate your cooperation in complying with these policies. If you have any questions or comments, please direct them to the FHA Resource Center at (800) CALLFHA.